

notes which could be counted upon to remain always in circulation. It was found that the net circulation in December, 1839, was £14,732,000, and it was argued that at least £2,000,000 more must be kept in the banking reserve of the bank. It was considered safe, therefore, to fix the uncovered circulation at £14,000,000 and it was left to the play of the foreign exchanges to control the fluctuations above that amount.¹ Gold imported under the attraction of low prices and high interest rates would be brought to the bank and exchanged for notes, under the theory of the framers of the act, and gold withdrawn from the country by the attraction of low prices and high interest rates elsewhere would be taken from the bank by the presentation of notes, which would thus be withdrawn from circulation.

The principle of issuing notes covered by other securities than coin, within the safe maximum limit of the amount which can be kept permanently in circulation, is a simple and intelligible banking principle, and indeed the principle upon which modern banking is founded. The declared purpose of the act—"to cause our mixed circulation of coin and bank-notes to expand and contract, as it would have expanded and contracted under similar circumstances had it consisted exclusively of coin,"—also seemed simple and intelligible to those who ignored the existence of credit and the domestic causes which made a larger circulation desirable at some periods than at others. The Act of 1844 proposed substantially to destroy the bank-note as an instrument of credit and make it a mere certificate of coin, leaving to other forms of commercial paper the functions which the bank-note had in part performed. It is obvious, however, that the framers of the act, in fixing a maximum limit of authorized circulation, meant to deal only with the conditions then existing and that, if their theory had proved operative, they could not have objected to a much higher limit to meet the expanded volume of modern trade.

Existing private and joint stock banks of issue were permitted, with the usual respect of English law for vested ¹ Mr. Torrens, quoted by Hankey, 5-8.